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UNCLAS OTTAWA 002461

SIPDIS

SENSITIVE

DEPT FOR EUR/RPM, EB/IFD, WHA/CAN AND WHA/EPSC
TREASURY FOR OASIA/IMI - HARLOW, MATHIEU
USDOC FOR 4320/MAC/ON/OIA/JBENDER
PARIS ALSO FOR USOECD

E.O. 12958: N/A

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SUBJECT: CANADIAN FY 03-04 BUDGET: DEFENSE CONTINGENCY
FUNDS USED FOR ISAF

1. This message is sensitive but unclassified. Please treat accordingly.

2. Summary: Finance Minister Manley has asked government departments to cover unforeseen expenditures in 2003 from reallocation of existing funds. Canada is using C\$200 million in "contingency reserve" funds earmarked for defense expenditures (over and above the C\$800 million increase budgeted for FY 2003/04) to cover its participation in ISAF. End summary.

3. (SBU) Front-page headlines in Canada's major newspapers on August 27 erroneously stated that Finance Minister Manley planned to cut \$200 million from defense spending and C\$130 million from foreign aid. Senior sources at the Department of Finance said this was inaccurate. They explained to Mission officers that Manley is committed to maintaining a balanced budget and in February confirmed that government departments were expected to do the same; that unforeseen expenses would be covered from reallocation of existing funding. His office also confirmed "Defense will get what it needs for Afghanistan."

4. (SBU) The FY2003-04 federal budget increased defense spending by C\$800 million over the next 3 years, with an additional C\$200 million earmarked for contingency expenditures in FY2003-04. Manley expects the Department of Defense to use its \$200 million contingency reserve to cover costs associated with sending troops to Afghanistan.

5. (SBU) The same holds true for foreign aid: the Canadian International Development Agency (CIDA) has not had its funding reduced; it has been asked to stay within its initial (generous) budget.

6. (SBU) Comment: The newspaper headlines did not seem credible. Canada's federal government still enjoys a budget surplus and the GOC had not indicated any need to dig into its emergency funds or the money set aside for fiscal prudence. Therefore, spending cuts, especially in defense and foreign aid, which comprise a relatively small share of the federal budget, made no sense. Finance officials confirmed our suspicions. End Comment.

Cellucci